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Michigan Business Review

UNIVERSITY OF MICHIGAN · ANN ARBOR

VOLUME VII SEPTEMBER 1955 NUMBER 5

Published bi-monthly by the
School of Business Administration
University of Michigan, Ann Arbor
Printed at Ann Arbor, Michigan

Second-class Mail
Privileges Authorized
at Ann Arbor, Michigan

R. A. Stevenson, Dean

Michigan Business Review

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Fascinating facts about Michigan—some of which may surprise many readers—even in Michigan.

The State of Michigan

G. Mennen Williams

NO state, I suppose, any more than any individual, actually has everything. However, the State of Michigan comes so close to having everything that saying it does is, I am sure, not a misrepresentation but only a little bit of enthusiasm.

On any map of the United States, Michigan stands out—not like a sore thumb—but as a friendly mitten of the Lower Peninsula, ready to grasp the outstretched hand which is the Upper Peninsula.

But it isn't this cartographical outstandingness that I have in mind as setting Michigan apart. It's a certain spirit and record of accomplishment. Michigan put the world on wheels, gained a wartime accolade as the Arsenal of Democracy, with Paul Bunyan's aid supplied the lumber to build the cities, towns and farms when young America first pursued her manifest destiny, started the new consumer's economic revolution with Henry Ford's $5 a day wage, pioneers anew with the idea of G.A.W., and, with the Phoenix project and Detroit Edison's breeder reactor-to-be, begins to turn a people's mind from the destructiveness of the A-bomb to the great possibilities of human service and happiness that the peaceful use of atomic energy promises.

It is of this rich pigment that the picture of Michigan takes shape—of brave new worlds, of great lives lived, of prophets' dreams and of everyday people matching their lives with the rugged splendor of Michigan's two great peninsulas.

Before plunging in, let's look for a moment at the word Michigan itself. It is formed of two words from the Chippewa language—"Mitchaw" and "Sagiegan."

The first means "Great" and the second means "Lakes." Michigan meant, therefore, to the Chippewas "Land of the Great Lakes." Nothing could be more expressive—we are the land of mighty waters.

The Strength of the People

Our *people* are the major source of our strength, just as they have always been. We have come to realize that any strong substance, be it a metal, or a fabric, or a state or nation, is made up of a variety of components. Metals in their pure form have some utility but their strength comes from alloying them with other metals.

The same is true of a people. Our real strength has come from the great strains which run through our population. The skills, brawn, ideas and general ways of living which have been given to us from other lands were a major factor in the well-being which we now enjoy.

Who of us who have been to a Polish wedding or a Greek christening can fail to recognize the vitality and zest for life which is present in the people there?

About the author—

G. Mennen Williams, Governor of Michigan, is a graduate of the Law School of this University—J.D., 1936. This address, the first in the 1955 Summer Lecture Series at the University, was delivered in Ann Arbor, on June 21.

A visit to one of the huge automobile assembly plants is perhaps one of the most stirring sights which a man can behold. The power and energy of the great machines is only surpassed by the greater power and energy and the intelligence of the men who operate them—men born in Naples or Berlin, or Kentucky or Tennessee—or whose parents were born in other far-away places.

This cosmopolitan diversity is not, as many think, limited only to our large cities. The population of rural Michigan is made up, to a great extent, of people born in other countries or immediate descendants of our foreign-born.

The most recent study of our population shows that one of every eleven persons in rural Michigan is foreign-born. We know that, in 1920 in nine Upper Peninsula counties, three-fourths to nine-tenths of all the residents were foreign-born or immediate descendants.

Michigan has more Belgians, Finns, and Hollanders, and immediate descendants of these people than any other state. Only Ohio has more people of Bulgarian stock, and only three other states can claim more residents of English, Polish, Syrian, and Yugoslav stock. In fact, no state with as large a population, except New York, has a larger foreign-born and first generation population.

Why They Came Here

Our people have come here from every corner of the world. They came for economic and political reasons, largely. They came because they heard that in Michigan a man could make five dollars a day in Henry Ford's shop . . . because they heard that in Michigan there were no secret police and everybody rode the same streetcars . . . because thy heard that Michigan was a place where a working man could find dignity and decent wages . . . because they heard there were jobs here and opportunity on a new frontier.

While they were sinking their family roots in Michigan's soil, these immigrants had little time to think of more than making a living, building their churches, educating their children, and buying homes or farms.

But now, in accord with the motto on the Great Seal of Michigan, they have begun to look about them at the two peninsulas which are their homeland. And they are pleased with what they see. An awareness is growing among us that we have a great inheritance, an illustrious tradition and a future which is circumscribed only by the limits of our own courage and initiative.

For a long time I have been impressed by this growing sense of pride in Michigan. As I traveled around the state, I heard Michigan people talking about Michigan as Texans talk about Texas, as the French talk about la belle France, and as the Irish talk about that little bit of heaven. From Ironwood to Monroe, and from New Buffalo to the Soo, people wanted to tell me about how their own community led the world in some field of human activity, whether it be raising tulips or making iron castings.

Four Flags Have Flown Over Michigan Soil

It surprised me, for example, to learn that a white man had visited Michigan two years before the Pilgrims landed at Plymouth Rock —many years before anybody knew what lay behind the Blue Ridge of Virginia. It surprised me, too, to learn that four national flags have flown over Michigan soil—the Lilies of France, the Union Jack of Britain, the Stars and Stripes and—how many of you know the fourth one? Well, it was the flag of imperial Spain. Spanish troops captured Fort St. Joseph where the City of Niles now stands, and held it for several days in 1781.

Michigan, including its Great Lakes territorial waters, is the largest state in area east of the Mississippi. It is larger than Greece. The Upper Peninsula alone is bigger than Belgium. Marquette, Michigan's largest county, is twice the size of the State of Rhode Island.

Michigan has 3,100 miles of shoreline, the longest of any state. Ironwood, in the far

northwest of Michigan, is farther from Detroit than New York City, Ottawa, Davenport in Iowa, or Knoxville, Tennessee. Michigan extends farther west than St. Louis, Missouri, farther north than Montreal, and farther east than Greenville, South Carolina.

Rich Natural Resources

Nature richly endowed Michigan with natural resources. Michigan's great forests in their prime were the country's great source of lumber; and even today the state has the largest number of active sawmills and saws the greatest amount of lumber of any major industrial state.

Michigan's iron mines, starting in 1844, opened the great Superior ranges and started the great industrial heartland of America. Even today only Minnesota mines more of this priceless ore. At the same time, Michigan's fabulous copper mines were opened, the only large commercial deposit of native copper in the world and, around the turn of the century, the most important single factor in the world market.

Michigan earth also enjoys top rank in the production of calcium, magnesium, chlorides, gypsum and salt; second in bromine, sand and gravel; third in natural magnesium compounds; fourth in stone and peat. We have the largest underground iron mine in the world, the largest commercial limestone quarries, and we supply almost all the graphite used in lead pencils.

Industrial Michigan

The biggest thing about Michigan, of course, is the great automotive industry and its allied industries. But how many of us knew that Michigan has 81 per cent of all other types of industry? Michigan has ten thousand factories, totalling more than a million employees. It ranks first not only in automobiles, but also in boat building, gray iron making, cutting tools, woodworking machinery, baby foods, magicians' equipment, breakfast food, and in the repair of circus calliopes. It has the world's largest drug products plant under one roof in Kalamazoo, the world's largest automobile plant at Dearborn, the world's largest cement plant at Alpena, and the biggest guitar factory at Kalamazoo.

Detroit is known all over the world as the automobile capital. But Detroit is also the nation's first city in pharmaceutical products, adding machines, machine tool accessories, foundry products, heating devices, paint, and heavy chemicals.

Detroit is also the world's healthiest and the world's most prosperous big city. It has the lowest death rate of any large city, and a median average income of more than $4,000 per capita, highest in the world. It also has the largest proportion of home owners of any large city in America.

The Detroit River is the world's busiest waterway, carrying more tonnage than the Rhine, Thames, Seine, and Volga combined. Detroit ranks second only to the port of New York in dollar volume. The locks at Sault Ste. Marie, up to last year, carried more freight than the Panama and Suez canals combined.

Agricultural Michigan

That gives you an idea of industrial Michigan. But Michigan is also a mighty agricultural state. In the production of the country's twenty most important crops, Michigan ranks tenth or better in each.

It leads the nation in production of tart cherries, navy beans (often erroneously called Boston beans), cantaloupes, celery, cucumber pickles, strawberries, gladioli for bulbs, and chicory.

It is second in the production of plums, carrots, field beans, cauliflower, red clover seed, onions, and blueberries. It is fourth in sugar beets, and produces 21 per cent of the nation's peppermint and wintergreen. Michigan farmers have won recent national awards for potatoes and butterfat, and world championships in milk production and wheat growing.

Tourists and Recreation

Michigan is big enough to contain a third great industry in addition to manufacturing

and agriculture. That is the tourist and recreation industry. It is significant that here, a few hours drive from the nation's biggest factories, we have some of the nation's biggest forests. Six million acres of our state are covered by state and national forests. In and near these woods, we have a deer herd of more than 700,000—the largest east of the Rockies—the only elk herd east of the Mississippi, and one of the few moose herds in the United States, not to mention bear, bobcat, and other game.

Michigan has 11,000 lakes, and 36,000 miles of streams. In 1954 we sold more than a million hunting licenses, and more than 1.2 million fishing licenses.

Michigan leads the nation in the number of state parks and the number of acres replanted to forests after the lumbermen took the original pines. The world's highest artificial ski jump is at Iron Mountain, and the world's longest toboggan run at Grayling.

To get visitors to this vacation wonderland, Michigan built the first cement highway in 1899, and the world's longest international bridge at Detroit. Michigan highways carry 64 million miles of traffic a day, equivalent to 2,500 trips around the world. To protect these motorists, we installed the first radio-directed state police system in 1929.

The Mackinac Bridge, which we expect to open soon, will be the longest suspension bridge in the world. Including anchorages, but excluding approaches, it will extend 8,614 feet across the Straits of Mackinac. If we include the approaches, the total length is 26,195 feet, almost five miles.

Other Michigan "Firsts"

These are only a few of the glories of Michigan. For example, I haven't mentioned that Michigan was the first state to have a state superintendent of public instruction, the first state to insure every child the right of a tax-paid high school education, the first state to provide for libraries in its constitution. The University of Michigan ranks first among state universities in the number of alumni listed in "Who's Who." Both Michigan and Michigan State were the first in their fields to admit women. And so it goes.

By no means has my talk this afternoon exhausted the many fields of supremacy of our state of Michigan. But to enumerate them all would be to go on and on and on. All I want to say in conclusion is that the Good Lord has blessed us particularly here in Michigan with a wonderful land, a great tradition, and people with whom we can all be proud to live and work. May we all understand our great heritage and cherish it! May we in our turn make our contributions to keep alive all that is good in Michigan, enrich it where we can, realize the dreams of yesterday, and dream the dreams of greater tomorrows!

A distinguished engineer and businessman outlines the prospects for atomic energy as a contribution to the Michigan Economy.

Michigan's Future in Atomic Power

Walker L. Cisler

TO many people throughout the world, the word "atom" continues to mean "destruction," and the phrase "atomic power" still arouses such concern as to obscure the tremendous constructive possibilities of this new energy source.

I sincerely believe that here in our pioneering State of Michigan, however, we have a philosophy which clearly recognizes atomic energy as a God-given basic resource whose peaceful uses can far over-balance its powers of destruction. Here, we are confident that seeking more and more constructive uses for the heat and other products of nuclear fission is the best possible way to a better and more peaceful world.

It is my sincere belief that this philosophy —symbolized by our University of Michigan's great Phoenix Memorial Project—can and should be inculcated upon fearful people everywhere. To replace their fear with hope would remove one of the most serious barriers in the way of realizing the atom's real and universal promise. This is a challenge which I am sure all of you, as citizens of our State and of our Nation, are most eager to accept.

Michigan is already well out ahead in atomic energy development—and for several good reasons.

Michigan's Facilities Excellent

Besides the stimulating intellectual climate provided by our great universities—here in Ann Arbor, at East Lansing, on Detroit's Wayne campus and in our State's many other collegiate institutions—there is another most important factor in the emergence of Michigan as a world leader in the development of peaceful uses of atomic energy. This other factor is our unexcelled resource of craftsmen, technicians, engineers, scientists—the men who have built what is perhaps the world's best-known industrial center. These are men who may be depended upon to turn their production "know-how" toward putting the atom to work for the benefit of all. They have long been aware of the great significance of power to industry—and of the special importance of atomic energy development in the future of industrial Michigan.

Work Proceeds on Broad Front

I do not mean to imply that our peacetime atomic energy applications are in any sense restricted to industry. From atomic activity right here on this campus has come the successful treatment of some kinds of cancer, thyroid disorders, and other diseases. Trichina larvae in pork have been sterilized by irradiation to combat trichinosis as a human ailment. Atomic "tracer" substances have been used in botanical and agricultural research. The age of prehistoric relics has been determined by measuring radioactive carbon content. And these are only a few of a multitude of exam-

About the author—

Walker Lee Cisler is President and Chairman of the Board of The Detroit Edison Company. He is a Fellow of the American Institute of Electrical Engineers and of the American Society of Mechanical Engineers. Currently he is chairman of the ASME Nuclear Energy Application Committee.

ples of highly important non-industrial applications.

However, my experience has been, and my work still is, primarily in the field of industrial utilization of the atom as a new source for heat energy. And still more specifically, my interest is in the utilization of nuclear fuels in the operation of thermal-electric generating plants. Therefore, I shall speak of Michigan's future in atomic power in terms of our State's present use and future need for heat energy and electric power.

Energy, Progress, Closely Tied

But first, let me emphasize the close relationship between man's ability to utilize energy, and the progress of the human race. This relationship appears throughout the history of our civilization.

From the beginning, man was able to advance himself only by the performance of human tasks. These tasks required energy, and at first, man had only his own muscles as a source. Later, he learned to conserve and utilize this energy more efficiently with crude tools—the hammer, the lever, the roller—but he still had only his own energy to help him.

His first big step toward utilizing energy outside himself probably was taken when he learned to use fire for light and warmth and cooking. Then came the harnessing of animals to help him with his physical labors. And later, in a small way at first, he discovered how to utilize the energy of wind and falling water. With windmills, water-wheels and beasts of burden to help him, his advancement continued.

Heat Engines Launched New Era

It was when man's ingenuity put fire and the tool together that civilization stepped into seven-league boots. His invention of heat engines for transforming thermal energy into force and applying this to mechanical motion began an era of greatly accelerated progress. It then became possible to utilize energy in larger and larger quantities and to perform hitherto impossible tasks. The industrial age had been brought into being.

Even so, the energy then made available, coupled with mechanical motion, still had severe limitations. It could only be utilized at, or very near to, the location where the force and motion were created. The energy could be transmitted only through such devices as belting and shafting, over very short distances. Then, less than a century ago, man took a significant stride that opened up vast new possibilities. He found a practical way to convert mechanical energy into electrical energy.

Electric Age Dawns

Electricity's great advantage was that it would be transmitted over relatively long distances. Also, its remarkable flexibility made it useful in a multitude of ways. For example, it could be converted back to mechanical energy with motors and used to run machines. In addition, it could be used for lighting, and for electro-chemical, electro-metallurgical and other industrial processes.

Because of this great versatility, man is still finding countless ways to employ electric energy not only to relieve himself of drudgery, but to produce a great abundance of new and useful things, available to all at low cost, which constantly improve our standards of living.

So it is that in the world of today human progress and the use of energy go hand in hand. In areas where there has been little development of the use of energy, it must surely be conceded that progress has been slower and that living conditions are less advanced. Energy, and especially electric energy, has thus become a universal symbol. What, then, is Michigan's future, as measured in terms of present and anticipated energy utilization?

State's Power Requirements Soar

Michigan's present requirements for fuels—sources of heat energy—are startling indeed. For example, in a single year Michigan has used as much as 28 million tons of coal, 170 billion cubic feet of natural gas, 2⅓ billion

gallons of gasoline, and nearly 2 billion gallons of fuel oil.

This means that fuels equivalent in heat energy to more than a million tons of coal must come into Michigan *each week* in order to sustain our present living standard, a total equivalent to 57 million tons of coal per year. And this heat energy requirement is increasing steadily year by year.

Coal is Main Electric Source

Now, may I call attention to Michigan's fuel requirements for electric generation alone —not including those fuels used for motive power, building heating, and the like. As you know, our State's hydro-power resources are very small, and diesel and other internal combustion generating plants are few; almost all of the electricity for Michigan is produced by thermal, or steam-electric, generating plants, which burn coal. The coal used for electric power generation in Michigan, during the single year of 1954, totaled about 9½ million tons, a tremendous consumption indeed.

And while Michigan is consuming great quantities of energy in its homes, on its farms, and in its shops and factories, our State is at the same time producing a multitude of those things which require tremendous quantities of power to operate them—our automotive products, our machine tools, our electric appliances. Thus, energy is doubly important to us.

Fuel Supply Has Limits

One might logically inquire, at this point—since our nation is rich in resources of coal as well as oil and gas—"Just how does atomic energy enter this picture? Why do we need to develop atomic fuels when our needs are already so well supplied?"

The answer to such questions is this: Our conventional fuel resources are great, it is true, but they are not inexhaustible. And our power demands are rising at a truly phenomenal rate.

In this connection, you may be interested in some estimates prepared by my company concerning the years ahead. These figures are not for Michigan as a whole, but for our 7,600 square-mile service area, which extends from the tip of the Thumb south to near the Ohio border, and from the Ontario boundary west to near Lansing.

It is estimated that the population of this area, which of course includes Metropolitan Detroit, will increase from about 4 million people at present to 5.4 million people by 1975. This is a 40 per cent increase—about 80,000 more people each year. This amounts to adding a new city the size of Pontiac every 12 months.

This also means that in 1975, use of electric energy may be expected to reach about 27 billion kilowatthours a year, as compared to about 10 billion at present. Our company would have to use more than 12 million tons of coal or the equivalent to fulfill one year's power needs two decades from now.

Michigan 20 Years From Now

Extending these estimates to include our neighboring company to the west and north—Consumers Power Company—and the other electric power systems serving our State, we might expect for all of Michigan, in 1975, a total power use of 50 billion kilowatthours which would require 21 million tons of coal a year.

On the basis of these forecasts, a better and more abundant life for the average residential electricity consumer is indicated by the probability that he will be making use of 6,400 kilowatthours in 1975 as compared to his present annual use of 2,760 kilowatthours. In addition, he will have the comfort and advantage of the many additional convenient and work-saving manufactured products provided by a probable increase of 150 per cent in power use by Michigan industry.

Atomic Fuels Can Help

I am sure these forecasts will emphasize the importance of the development of the atomic fuels which can supplement—and augment—our precious resources of heat energy. To illustrate this point, I have here a lump

of coal of the kind we use in our power plants, weighing 3¼ pounds. With it, we can produce about 4½ kilowatthours of electricity. And here also, I have a slug of uranium weighing 3¼ pounds—exactly the same as the lump of coal. The heat which is potentially available in this single piece of uranium could produce about 12 million kilowatthours of electricity, and is therefore equivalent in heat energy to some 4,200 tons of coal. It is a startling fact that one pound of uranium equals 2,600,000 pounds of coal.

Nothing, it seems to me, could better demonstrate the tremendous possibilities of this new energy resource.

Better Living Standards Seen

Now—we have seen how closely Michigan's future standards of living are tied to the problem of supplying an ever-increasing demand for electric power. And we have seen also how atomic energy, as a vast new source for heat energy, has emerged as a natural answer to this problem.

I believe Michigan's own energy-consciousness is the best assurance of her continued and increased prosperity in the new era of the atom. There are many tangible results of our State's early awareness of the importance of the atom's productive power.

For example, three proposals recently made by industrial companies to build developmental commercial power reactors grew out of studies carried out by the 33-company group known as Atomic Power Development Associates, Inc. APDA was initiated right here in Michigan five years ago.

Three Proposals Named

One of these three proposals—now being considered by the Atomic Energy Commission—was made by APDA companies and others in New England, known as the Yankee Atomic Electric Company. They plan to build a plant in Western Massachusetts.

Another proposal has been made by Consolidated Edison Company of New York, Inc., also a member of APDA.

Several other APDA members, including Michigan's Consumers Power Company and our own Detroit Edison, together with Burroughs Corporation and Holley Carburetor Company, plan to build a 100,000 kilowatt atomic electric power plant in Southeastern Michigan—probably in Detroit Edison's service area.

We hope to have this plant in full operation by about 1960. Like all other atomic power plants proposed at the present time, the Michigan plant probably will not at first be economic. But, as in all new fields of development, the cost must be justified by essential research experience to be gained which will enable us to build better, and economic, plants.

Company Bears Cost

I want to assure you that my company's $5,000,000 share in the $45,000,000 reactor construction program will *not* increase the payments of our customers. It will be charged, instead, to research—as an additional operating expense which will have to come from economies in operating expenses and from our net earnings.

In other words this is, for us, both a financial investment and a pledge of confidence in Michigan's atomic future.

May I emphasize that this pledge is being made on what we believe to be the very best grounds—Michigan's own already well-earned reputation in atomic development.

For several years, your University's great Phoenix Project, has been training and bringing together the finest of minds and the finest of facilities for atomic investigation. The results have been detailed studies of the applications and implications of atomic energy in medicine, law, agriculture, and social sciences —every facet of atomic energy's possible impact on society.

It seems to me quite certain, then, that Michigan—standing so ready and well prepared on the threshold of the Atomic Era—can look, God willing, to a bright, peaceful and prosperous future in atomic power.

The author believes that price inflation is still a "moot question" despite the persuasive arguments that are current today.

Is Price Inflation Inevitable

Paul W. McCracken

WHAT is the longer-run outlook for the price level? Will prices revert to the old prewar par, as happened after major wars in the nineteenth century? Are we confronted by an age of inflation? If so can measures be devised to minimize the inequities which usually accompany major changes in the value of money? Should the objective of public policy be a stable price level, one that is gradually falling, or one that is drifting upward?

These questions have received a substantial amount of attention in recent years both at the academic level and the level of business and public policy. In 1951 a series of three articles by an unidentified correspondent was published in the Economist on the theme of "Agenda for the Age of Inflation," in which the author concluded that a rising price-level trend was to be expected and that far-reaching measures should be taken to moderate inequities which would otherwise arise.

Professor Slichter during the postwar period has repeatedly raised questions as to whether powerfully organized labor would drive wage rates up more rapidly than improvements in productivity, exerting chronic upward pressure on unit labor costs and the price level.

Others, such as Professors Friedman and Morton, have questioned the inevitability of price inflation, feeling that the crux of the problem and its solution are to be found in a more courageous monetary and fiscal policy.

During the postwar period these questions very quickly passed out of the academic "ivory tower" and into the arena of real-world policy. In 1948 the historic agreement between the General Motors Corporation and the U.A.W.–C.I.O. provided for regular escalation upward (and downward to a limited extent) of wage rates as the cost of living rose. Perhaps the manifestation of this concern about price-level prospects most familiar to an academic group is the establishment of the College Retirement Equities Fund by the Teachers Insurance and Annuity Association of America. A major objective of this innovation is to provide "not only a sufficient annuity income in dollars but also a reasonable income in current purchasing power."[1] This was felt to be necessary because there "is little in the present situation to assure us that the purchasing power of the dollar in the year 1960, 1970, or 2,000 will be the same as it is today."[2]

Three years ago the Kooperative Forbundet in Sweden issued some twenty-year debentures carrying limited escalation of the principal for changes in the cost of living if the securities are held to maturity.[3] Though it has not been done, the suggestion has been seriously made in this country that the Treasury issue something like a Series E bond, with a price-level

About the author—

Dr. McCracken is Professor of Business Conditions in this School and a well-known consultant. This paper was presented at the Money and Banking Workshop, Federal Reserve Bank of Minneapolis, May 7, 1955.

[1] William C. Greenough, "A New Approach to Retirement Income" (New York: T.I.A.A., 1951), p. 7.
[2] Ibid., pp. 7–8.
[3] This information was supplied in correspondence by Professor Folke Kristensson, The Business Research Institute, The Stockholm School of Economics.

escalator provision, to hedge the financial assets of the small fellow from deterioration through a decline in the value of money.

The Case for Rising Prices

The case for the view that the price level will be drifting upward is a strong one. It seems to me this case boils down to about five inter-related propositions. First, the empirical data themselves seem to suggest it. Some of you may recall a very interesting chart, developed by Warren and Pearson, of wheat prices in England from 1260 to 1930.[4] The trend was relatively flat for the first two centuries, rose from 1500 to about 1640, and again from about 1740 to 1800—at which time it was about ten times the 1260 price level. This chart suggests that the long decline in the price-level trend during the last century (to the 1890's) was, like the decline during the century following 1650, an interim reversal of a rising trend.

But we need not confine our observations of empirical data to periods long since past. Data during this first postwar decade are also germane to this matter. During the 1953 to 1954 recession the range of the consumer price index was from 115.4 in October 1953 to 114.3 in December 1954. And in the 1948 to 1949 movement the range was from 104.8 to 100.4, a decline of only 4 per cent. Clearly in neither of these recessions did the price level display any great elasticity in the downward direction. This has caused some to raise the question as to whether future price movements might not look like stair steps—rising in recovery and prosperity and holding steady during recessions, with a long-run rising trend.

Second, the political and social sensitivity to the goal of full employment is itself alleged to be inflationary. For one thing we will not get the recessions which would undo the rise in the price level during the prior prosperity. Moreover, the great political sensitivity to the existence of unemployed will cause us to keep the economy and the price level under more or less chronic forced draft through easy monetary, credit, and fiscal policies. The unidentified correspondent in the Economist articles referred to this as the "sacrosanctity" of full employment—asserting that inflation "is nine-tenths of *any* practical full employment policy."[5] Indeed a part of the problem here may be pressure to eliminate what is really "statistical" unemployment and not unemployment in the bona fide sense that job hunters far exceed the number of unfilled jobs. One evidence of this is the chronic dispute over whether labor force and employment data are giving a true picture of the unemployment picture. Another is that while unemployment is still 5 per cent of the labor force (in March), the length of the work week in manufacturing is 40.7 hours, equal to the 1951 and 1952 average.

Third, modern highly organized labor unions have the power to exact from management wage increases which are larger than the long-run two to three per cent per year improvement in productivity.[6] Cost levels will, therefore, be rising. Society then must make a hard choice. A stable price level means unemployment growing to the point where this power of organized labor is contained and neutralized. A policy of maintaining reasonably full employment means a rising price level as prices give way before rising unit labor costs. As Professor Morton has put it we apparently must choose between one of three alternatives:

1. Unionism, full employment, and inflation;
2. Unionism, stable prices, and under-employment;
3. Full employment, stable prices, and no unions.[7]

[4] George F. Warren and Frank A. Pearson, "Gold and Prices" (New York: Wiley, 1935), p. 438. On page 436 there is also a chart of the price of wheat in silver from 600 B.C. to 1900 A.D., showing again a relatively flat trend until about 1400 A.D.

[5] *Economist*, "Agenda For the Age of Inflation, I", August 18, 1951, p. 383.

[6] Cf. Sumner H. Slichter, "Do the Wage Fixing Arrangements In the American Labor Market Have An Inflationary Bias?", *American Economic Review*, Proceedings, May 1954, pp. 322–46. The case presented in this article rests on far more than the "union" argument alone.

[7] Walter A. Morton, "Trade Unionism, Full Employment, and Inflation", American Economic Review, March 1950, pp. 13–39.

Fourth, a slowly rising price level is considered to have certain positive advantages. It would relieve the chronic international dollar shortage problem by making American goods relatively higher priced in the international markets. Keynes in his last Economic Journal article suggested this possibility, and Professor Slichter has also pointed out this advantage of a rising price level.

A slowly rising price level would help to stimulate demand and thereby contribute to maintaining full employment. Money would by definition tend to deteriorate in value, tipping marginal decisions in the direction of more prompt expenditure. Thus the possibility of a retreat into cash would be minimized.

Moreover, a slowly rising price level will permit more output.

A rate of output consistent with price-level stability does not represent the absolute ceiling to our capacity to produce. Even if pushing output above this level means upward pressure on the price level, it does also mean more output. And the volume of output is a better measure of welfare than the stability of the price level. This is, as I understand it, a quick summary of the position Professor Hansen took in his testimony before the Joint Committee on the Economic Report last January 31.[8]

Fifth, we have now substantial built-in inflationary elements of a more automatic and mechanical character than those already mentioned. There is, for example, the automatic improvement factor in a substantial number of wage contracts. While this need not exert upward pressures on the price level, it is apt to work out that way in practice. A major problem is the sheer difficulty of measuring productivity for the whole economy. The result is almost certain to be arguments about what figure ought to be used, with the unions understandably pressing for a figure at the high side of the spectrum. It would not, therefore, be surprising if the forthcoming new contract in the auto industry were to contain some upward adjustment in the rate of increase in wage adjustments provided for by the improvement factor escalator.

There is another aspect of this automatic improvement factor escalator which has received surprisingly little attention. A part of the rise in productivity has occurred historically by a shift of labor from low to high productivity industries—for example, from agriculture to manufacturing. To the extent that labor productivity is rising because of these interindustry shifts, however, wage rates cannot be adjusted upward by the full increase in aggregate productivity without exerting upward pressure on unit labor costs.[9]

Let us make an extreme assumption—that output per man hour in each industrial line is not changing, but that there is a shift from lower to higher productivity industries. Obviously over all output per man hour is rising. It is equally clear, however, that if wage rates generally are thereby escalated upward, unit labor costs in every industrial line will rise.

We are, therefore, justified in raising the question as to whether in practice the automatic improvement factor escalators may well not build some inflationary pressures into our cost-price levels.

The cost of living escalators are, I think, less apt to result in built-in inflation, but they are not entirely free from the possibility. Once the principle of this type of escalation is accepted it must be assumed that there will be periodic differences of opinion about whether orthodox price indexes are giving us a true measure of price changes—with the unions understandably making the point that price increases are thereby underestimated. Moreover, if these escalators were adopted at a

[8] Alvin H. Hansen, "Economic Growth and Inflation", Commercial and Financial Chronicle, February 24, 1955, p. 20.

[9] Cf. John W. Kendrick, "National Productivity and Its Long-Term Projection" in "Long Range Economic Projection", National Bureau of Economic Research, 1954, pp. 67–104. Mr. Kendrick estimates that productivity from 1909–41 increased at the rate of 2.1 per cent per year in the private economy—of which the farm-to-nonfarm shift accounted for about 0.27 per cent per year.

time when prices were low relative to wage rates, a spiral of upward price corrections giving rise to further wage increases could theoretically occur, with equilibrium never being attained.

The Other Side of the Coin

In spite of all of these persuasive arguments, I do not believe that the case is yet established for the view that we shall or should have a rising price level, and I want now to explore the other side of this question.

First, the empirical data on price movements do not prove very much either way. In the 16th and 18th centuries the price level was rising. In the 17th and 19th centuries it was falling. Since late 1951 the price level has been remarkably stable, and even the 15 per cent rise following Korea (all of which occurred within an eighteen months period) was remarkably mild in view of the magnitude of the shock to which the economy was then subjected.

Professor Hansen has himself pointed out the remarkable resistance of the American economy to inflation. During the roughly seven years following the war there were 52 months of stable prices and 26 of rising prices.[10]

Second, whether unions are going to exact wage adjustments substantially larger than the improvement in output per man hour remains to be seen. Obviously these wage adjustments during the postwar period have been in excess of the two to three per cent improvement in productivity. But it is equally obvious that union leaders found themselves negotiating in the context of a price inflation by no means stemming only from their own wage demands. Unions were, therefore, under pressure to recoup the lost purchasing power of their members' pay envelopes, knowing that within quite broad limits corporations would accept these demands because of sellers' markets.

[10] Alvin H. Hansen, "Saving in the Expanding United States Economy" in *Savings in the Modern Economy* (Minneapolis: University of Minnesota Press, 1953), p. 50.

Professor Morton does have a point. Unions always want wage increases. How much they get depends importantly on the resistance confronting them. This depends in turn on whether businesses think they can "pass on" higher costs or not. And this depends on the flow of purchasing power, on such things as fiscal and monetary policies.[11]

Whether unions, operating in a less inflationary environment, will continue to win wage demands in excess of rising productivity remains to be seen. Certainly the moderateness of recent wage demands is encouraging. In 1954, for example, average hourly earnings were only 4 cents above 1953, or 2.3 per cent.

The real question is this. Would unions exact wage increases in excess of improvements in productivity even if it were known that the price line would be held? If so, we would then have to choose between inflation or unemployment. But fortunately that question cannot yet be answered conclusively in the affirmative.

Third, the evidence is increasingly clear that the policy objective of a slowly rising price level is not for any sustained period an alternative actually available in the real world. Though allusions to "a little bit of pregnancy" may not help much to clarify this problem, it is increasingly clear that it would be difficult to keep a slowly rising price level slowly rising, *once it was perceived that this was an objective of public policy.*

Price inflations historically have produced inequities in real incomes of a relatively capricious character. Indeed these injustices are one of the ultimate restraints to further inflation as well as a major adverse dividend from a substantial change in the value of money. Public understanding of and sensitivity to these matters is now of a relatively high order. It requires no clairvoyance to predict, therefore, that even a slowly rising price level would rather quickly precipitate widespread demands for price level escalators to wage rates, salaries, depreciation allowances, retirement incomes, savings bonds, etc. Indeed in

[11] Walter A. Morton, op. cit., pp. 13–39.

the postwar decade price-level escalation has been proposed (by responsible analysts) for every single item just enumerated. Unions would make even larger demands at each contract renewal, on the assumption that they must win something now to cover the expected rise in the price level.

Price inflation is the way market forces endeavor to boil the surplus of purchasing power out of the system. But if we set up escalator machinery by which as fast as the excess is removed it is promptly pumped back into the economy, the end result of a policy of slowly rising prices is certain to be prices rising not so slowly.

Fourth, the evidence is by no means clear that a policy of rising prices would mean a larger output or demand for output over the long run. Let me comment on the question of demand first. It has often been assumed that a rise in prices would precipitate stepped up spending. If so a rising price level would be a good policy for an economy where the propensity to spend is weak.

During the 1950–51 rise in prices attitude surveys established a negative correlation between expectation of price inflation and an attitude that it was a good time to buy. While people thought prices would rise they also thought it a poor time to buy. As prices stabilized, attitudes changed to a remarkably more optimistic tone.[12]

Professor Katona has put this most succinctly:

> The condition most conducive to spending appears to be price stability. If prices have been stable and people have become accustomed to consider them "right" and expect them to remain stable, they are likely to buy. Thus it appears that the common business policy, of maintaining stable prices with occasional sales or discounts, is based on a correct understanding of consumer psychology.[13]

Here clearly is an illustration of where rising prices precipitated a withdrawal of consumers from the market, not stepped-up spending. Our experience in one period does not necessarily give us a new eternal truth. But the view that consumers always jump a certain way at the crack of the inflation whip is clearly too simple to fit the real world.

The contention that a rising price level will result in more output *in the long run* also needs rethinking. For one thing an economy under forced draft is by definition an economy of some labor shortages. These in turn produce labor hoarding. All of us can document instances of personnel officers encouraging departments to keep some surplus of people as a sort of hedge against unforeseen personnel requirements—requirements that might be difficult to meet through new hiring in a tight market. But this sort of quite common practice in the war and postwar period resulted in correspondingly inefficient use of our ultimately scarce productive resource—labor.

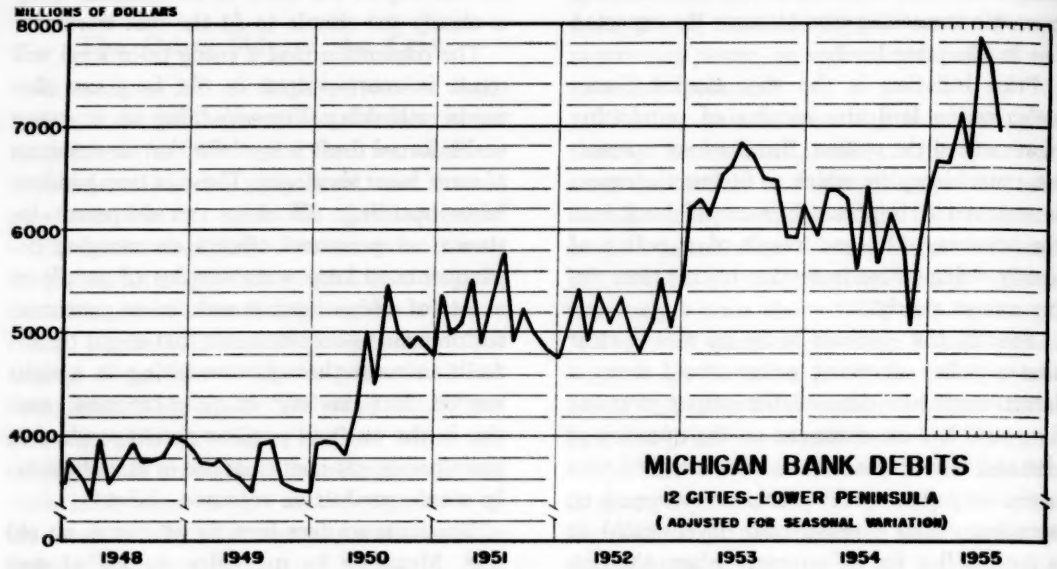
The issue we face here, is, of course, an old one. Measures to maximize output at any point in time may impede an enlargement in output in the long run. Output in most companies could be enlarged "today" by putting all central staff people on the assembly line—but these are the people whose basic job is to figure out better ways to do things. A research chemist may make no contribution to "todays" production though in the long run he may invent rayon and thereby put everybody in the silk stocking district. A distinguished Harvard economist, formerly of this state, by teaching less than the maximum possible class hours may thereby have time to think through new views about fiscal policy and help the whole nation gain new confidence in its ability to deal with the business cycle. Improved product design, better cost controls, or technological developments will certainly be stimulated if they are the price of survival.

The plain truth is that a dynamic, fast-moving economy is by definition in disequilibrium and not at its output maximum at any point in time. That is a part of economic progress.

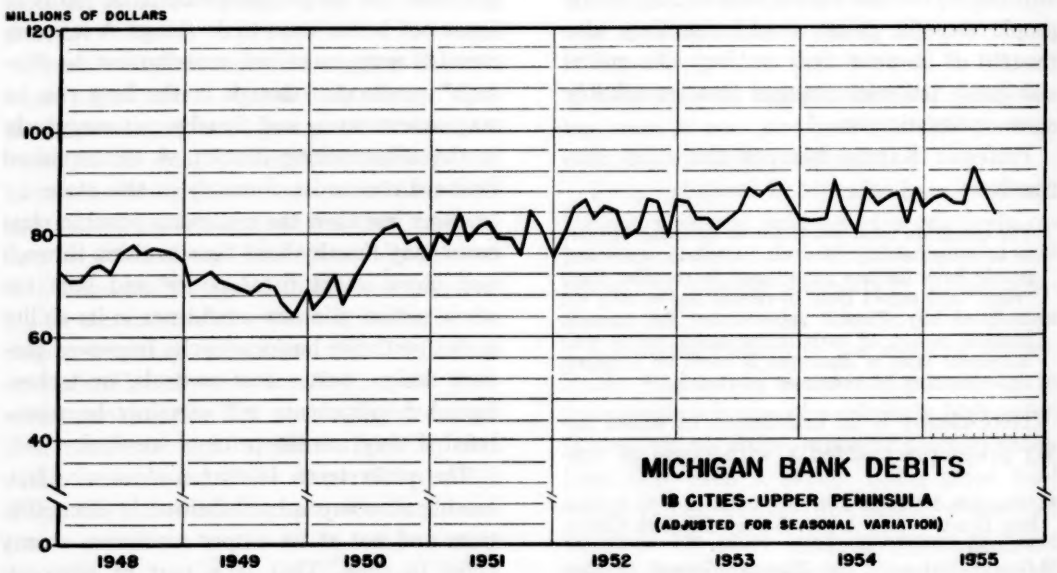
[12] "People's Attitudes Towards Inflation & U. S. Savings Bonds" (Ann Arbor: Survey Research Center, February 1953), pp. 22–25.

[13] George Katona, "The Human Element In Economic Man", The Michigan Alumnus, December 11, 1954, p. 129.

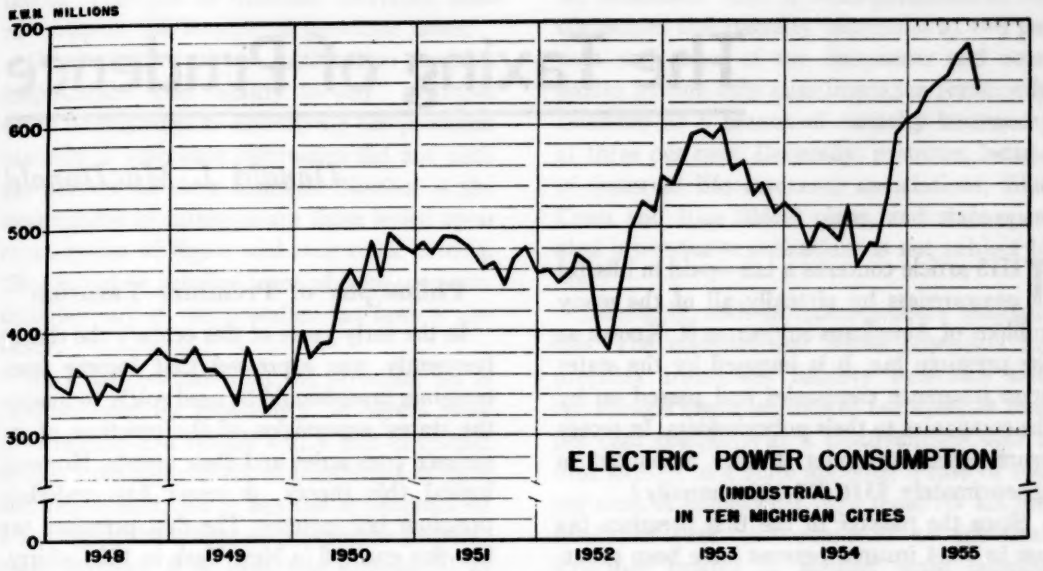
Michigan Business Indicators



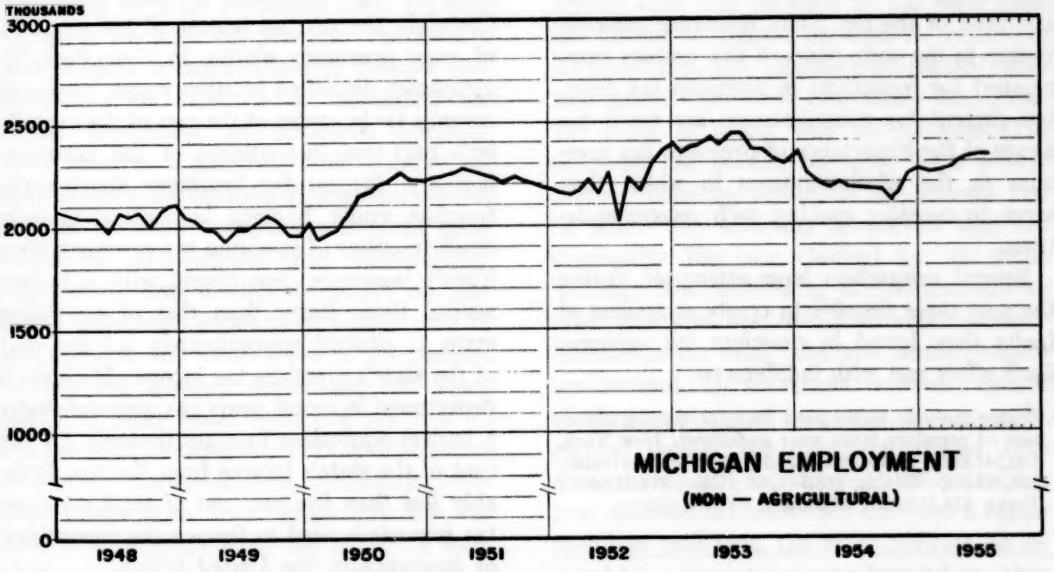
BANK DEBITS—THE MOST ALL INCLUSIVE MEASURE OF BUSINESS ACTIVITY—Despite a sharp decline in July reflected by cut-backs in automotive production, bank debits exceeded the peak levels of 1953.



UPPER PENINSULAR BANK DEBITS—Upper Peninsular debits registered a slight decline reflecting efforts to curb the overextension of credit.



POWER CONSUMPTION—Although declining slightly in July, industrial power consumption still exceeded the record high for the month of July set in 1953.



MICHIGAN EMPLOYMENT—Employment showed a minor increase in July following a relatively constant level of employment during May and June.

There are taxes and taxes. Here is one, little known to the public, that merits more attention than it has received.

The Taxing of Prudence

Donald L. MacDonald

THIS article concerns a tax—paid in blissful unawareness by virtually all of the many millions of Americans subject to it. Known as the premium tax, it is imposed by the states upon insurance companies and passed on by the companies to their policyholders. In recent years payments under it have amounted to approximately $316,000,000 annually.[1]

Since the passage of the first premium tax law in 1824 insured persons have been generally oblivious of their premium tax burdens. The insurance industry has so long performed its function of funneling premium tax monies into state treasuries that its leaders seldom give thought or voice to the incidence or the iniquities of the tax. State insurance commissioners in the early years of this century campaigned for reductions in premium tax rates, but present-day commissioners are much too aware of the importance of premium tax revenues to the administrations in which they serve to consider making such recommendations.

Several researchers have attempted during the past three decades to create awareness of faults they found in premium tax systems. Each effort met with indifference.

[1] During the year ended June 30, 1953, leading collectors of premium taxes were as follows: New York, $40,547,000; California, $29,171,000; Pennsylvania, $23,123,000; Illinois, $18,544,000; Ohio, $18,233,000; Texas, $16,210,000; Michigan, $13,058,000.

About the author—

Dr. MacDonald is Assistant Professor of Insurance in this School.

Philosophy of Premium Taxation

In the early years of this century the theory frequently was expressed that income from premium taxes should be used solely to finance the states' supervision of the practices of insurance companies and their agents. However logical this theory, it never has underlain premium tax systems. The first premium tax law was enacted in New York in 1824, thirty-six years before the establishment of the state's insurance department. Prior to the establishment of that department, the supervision of insurance was merely one of several areas of responsibility of the state controller. Certainly the tax, an impost of ten per cent of gross premiums written in New York by companies domiciled in other states, produced revenue far in excess of the cost of the controller's part-time surveillance of the insurance industry. Present-day insurance departments function under budgets amounting to only small fractions of premium tax revenues. New York's insurance department, with a budget several times larger than that of any other state, is allotted approximately 6.2 per cent of the state's premium tax income. Michigan's department in recent years has operated under a budget equivalent to approximately 1.9 per cent of the state's income from the tax. Probably less than five per cent of total premium tax revenue is used to finance the supervision of insurance in the United States.

The premium tax paid by a policyholder, then, does not represent his share of the cost

of regulation of insurance. Neither is it a measure of the value to him of such regulation nor of the general benefits he derives from the state's system of law. The "benefits received" principle of taxation, therefore, does not support the levying of premium taxes.

Other theories of tax justification are also inapplicable. The "ability to pay" principle could be regarded as underlying the premium tax only if insurance companies did not shift the burdens to their insureds. Neither is the tax punitive in nature as are those levied upon consumption of liquor and race track betting. That intent to penalize users of insurance ever underlay any of our premium tax laws is unlikely.

We must conclude that the premium tax is justified only by expediency. It serves state governments as a vehicle with which to extract money from individuals at minimums of pain and resentment, for it has the appearance of a levy upon the affairs of prosperous corporations. Further, it is easy and economical to collect.

The Laws

The typical premium tax law provides for the taxing of gross premiums from business written in the state less premiums returned to policyholders in cancellations of policies. Deductions from amounts so calculated are varied. Ordinarily, an insurance company which receives a premium from another insurer under a reinsurance arrangement is not taxed if the other company was taxed upon receipt of its premium from the insured. Under many laws mutual companies are permitted deductions equal to dividends paid to policyholders, and under a few of the statutes insurers are allowed deductions for losses paid. Tax rates range from one per cent to four per cent. In recognition of the differences, most of the statutes include retaliatory provisions. Under State "A's" retaliatory law, for example, a company domiciled in "B", a state which imposes a tax rate higher than "A's", is taxed on premiums written in "A" according to the "B" rate.

The law of a given state may prescribe different tax treatment for one category of insurer than for another. The Michigan law, for example, exempts premium income of domestic companies. Also, it taxes premiums of life companies and casualty companies at two per cent and those of fire companies and companies writing only auto insurance (ordinarily classified as a branch of casualty insurance) at three per cent. Generally, premium income of fraternal life insurance associations, Blue Cross and Blue Shield plans, and state-operated insurance organizations is not subject to tax.

Inevitably, such variances produce inequalities. The manufacturer whose payments for property insurance, liability insurance and the various group insurances are taxed at four per cent competes at a disadvantage with a firm located in a state applying a rate of two per cent. A homeowner pays more for his fire insurance than the owner of an identical structure located in another state because of a difference in premium tax rates. In life insurance the variances in rates makes possible the curious situation of a policyholder bearing a tax burden which is heavier or lighter than that imposed by his state upon his insurer in connection with its receipt of his premiums. Life insurance companies maintain uniform premium rate scales throughout the areas in which they do business. The premium tax burden borne by each policyholder, therefore, represents the average rate to which the company is subject and not necessarily the rate charged by his state. Through this subsidizing of policyholders by other policyholders, inequities which the differences in tax rates otherwise would produce are avoided. By no means, however, does it eliminate tax-caused inequities. For example, persons holding life insurance policies alike as to terms and face amounts of protection bear different tax burdens if one pays a higher premium rate than the other because he secured his policy at a more advanced age than the other, or qualified for coverage only at a rate higher than standard, or chose to con-

centrate his premium payments in a shorter period of time than the other.[2]

In those areas of risk in which reliance upon insurance is only one of several alternatives available to the individuals involved, the premium tax constitutes a penalty for use of the insurance method. For example, employee retirement programs can be built around either group annuities or self-administered trust funds. In a state which taxes premiums received by insurance companies under annuity contracts, an employer maintaining a group annuity bears a cost which he would not incur under the other plan. And to whatever extent this cost differential deters employers from instituting group annuities, the premium tax discriminates against life insurance companies.

Nineteenth-century economist John Stuart Mill criticized the imposition of taxes on life insurance premium payments as a measure tending to discourage individual prudence and forethought. Although still valid, this criticism now is shrugged off by most of us. A two per cent premium tax has an effect upon the individual's inclination to exercise prudence and forethought which is insignificant indeed in comparison to that of a social security system already of gigantic proportions and destined, according to some of its champions, for enormous expansion. Similarly, the fact that the taxing of property or casualty insurance purchases hinders the individual in his efforts to protect himself against financial disasters causes little concern in this era of sales taxes hindering him in his efforts to secure his food and clothing. Nevertheless, a fault remains a fault no matter how overshadowed by more significant flaws. Reform of premium tax systems is as necessary as if they constituted the economy's only imperfection.

Ideally, premium tax laws should be revised so as to produce only enough revenue to finance adequate regulation of insurance. In view of the states' desperate need for income, reform of this magnitude in the foreseeable future is unlikely. Conceivably, however, resentment against the deficiencies of the laws eventually might become sufficiently widespread to inspire correction. The educating of policyholders to that end should be an objective of all those desirous of contributing to the effectiveness of non-governmental insurance as a means of coping with the risks inherent in a system sanctioning private ownership of property and a considerable measure of individual responsibility for economic well-being. Insurance companies, in fact, have a duty to their policyholders to strive for reform of this tax which adds, unjustifiably, to the costliness of their service. Insurance leaders who state that insurance, as a major industry, must expect to contribute toward the general expenses of government through such levies as the premium tax are not necessarily to be commended for revealing a public-spirited attitude; magnanimity is painless when it involves the remitting of money of others.

Although thorough reform probably must be a distant objective, early improvements in two directions might be practicable. Substantial improvement, in the form of reduction in number of inequities, could be achieved by making tax rates uniform from state-to-state and from one field of insurance to the next. Inequities would remain, inasmuch as calculation of taxes as percentages of premiums inevitably places the heaviest burdens upon those paying the highest unit costs for their coverages, but the most unnecessary form of inequity would have been eliminated.

The second approach might be the enabling of policyholders to deduct sums paid to the states in premium taxes in determining incomes subject to Federal Income Tax. Such deduction would be consistent with a long-established principle of taxation. To permit this form of relief, state legislatures would have to (1) define the premium tax as a sales tax levied directly upon the insured and (2) require the insurer to indicate to the policyholder the amount of tax in each prem-

[2] The insured's premium may or may not reflect the exact amount of tax to be paid thereon, depending upon the preciseness with which his company allocates its administrative costs to its various classes of policyholders.

ium payment.[3] That costs to insurers (and finally to insureds themselves) of collection and remittance of the tax on this basis might be too great to warrant the change is possible.

[3] The Federal Internal Revenue Code permits a deduction for any state or local sales tax which is "separately stated." It defines "sales tax", in part, as a tax "imposed on persons engaged in furnishing services at retail and is measured by the gross receipts for such services."

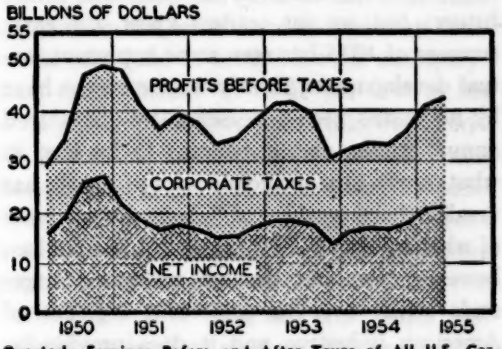
The deductions which would be permitted most insureds would be small. To the hard-pressed taxpayer, however, any arrangement affording legitimate tax relief is worthwhile. And certainly this country includes beleagured policyholder-taxpayers in numbers sufficient to warrant consideration even of a stop-gap plan promising only moderate relief.

Earnings of all Active Corporations

The longer-term trends of earnings of all active corporations in the U.S., numbering over 600,000, is shown in the accompanying chart, based on the regular computations by the Department of Commerce and including an estimate for the second quarter of 1955 just issued by the President's Council of Economic Advisers.

It will be seen that earnings, both before and after taxes, have now reached the highest level in four years. They remain well below the peak levels reached during the Korean war boom in 1950–51, however, despite the improvement this year and also despite the very substantial increase of capital funds, which in the years since the end of World War II have been built up at a rate averaging nearly $15 billion annually.

In several respects, however, the earnings now being reported *are of better quality than those during the previous peak.* They are no longer swelled by the inventory profits which played such a large part in the boom earnings of 1950–51 and were then estimated by the Department of Commerce as high as $5 billion annually. Moreover, the reported earnings today are after deducting depreciation charges at accelerated rates permitted by law on national defense facilities, which causes lower earnings than if standard depreciation rates were applied.



Quarterly Earnings Before and After Taxes of All U.S. Corporations. (Seasonally adjusted annual rates.)

—From the First National City Bank Letter, August 1955

Collective bargaining has set a number of new patterns this spring and summer. It is now time to begin casting up the balance to see what has been gained and what has been lost in the process.

More About Guaranteed Wages

Z. Clark Dickinson

MANY readers of this Review are doubtless following reports of significant events on the "Guaranteed Annual Wage" (GAW) front. Several articles in earlier numbers of the Review have given points of analysis and of *ex parte* arguments, with special reference to union-management bargaining in the automotive industry. As the present article goes to press, many uncertainties remain as to the future; but, as our readers know, the early summer of 1955 has seen some important factual developments. Hourly wage earnings have by no means been superseded by guaranteed annual wages, and it remains to be seen in what sense "the principle of the GAW has (really) been established." A good-sized piece of what the UAW-CIO calls a GAW plan has, however, been put through without a large-scale strike over an important segment of American industry; and it does provide by collective bargaining, a significant measure of additional income stabilization for the workers covered. Company offers of new fringe benefits by cut-rate sale of stock, easy loans to laid-off workers, and severance pay were refused by the union in order to concentrate pressure on supplementary unemployment compensation. This pressure was shrewdly centered on Ford; and with that first big olive out of the industry's bottle, others have come more easily.

Among the many features of this recent history calling for further analysis and comment, a few are selected for the present discussion, viz.: What are the principal features of the 1955 package?" What of its compatibility with state unemployment compensation laws? Are there likely to be serious differential impacts on various companies and groups of employees? Do the new contracts seem likely to have inflationary effects or to threaten the nation's employment and prosperity?

The package or pattern which predominates was, to a greater extent than is commonly realized, foreshadowed by the principal automotive agreements made since the bitter strikes within the first few years after 1945. In fact, the vocabulary and custom of bargaining "fringe benefits" into union-management deals received a great impetus during the war. In particular the General Motors–UAW agreement for 1948–50 publicized a then-novel combination of automatic "escalators"—one, a two-way sliding scale based on the Consumer Price Index, the other the one-way "improvement factor,"—an automatic yearly advance "across the board" originally of three cents per hour. These elements were designed to make the real wage more nearly keep pace with expected increases in productivity. A little earlier, bargained-out pension plans, supplementing government Social Security, began rapidly to spread over a large part of Ameri-

About the author–

Dr. Dickinson, Professor of Economics at this University since 1923, is author of books on economic motivation and wage policy; was public member in Detroit Regional War Labor Board; and has arbitrated numerous labor-management disputes.

can industry; company payments for various sorts of group insurance are of still longer standing; and before 1955 the longer-service workers in the large companies had some benefits in case of permanent and total disability, as the result of collective bargaining.

On these and some other fronts, the UAW in 1955 was assisted by the booming state of automotive production and sales to push forward. The total result does not approach closely a literal guaranteed wage, yet it does raise and broaden supports under employee incomes. Many employees, for instance, are now to have "vested" rights to supplementary pensions; the parties have settled for three-year contracts; and the "escalators" mentioned above have been modified—e.g., the annual "improvement factor" becomes 2½ per cent or 6 cents per hour, whichever is larger—a concession to the more highly skilled workers, whose 2½ per cent will exceed six cents. Apparently here is the nub of the 1955 wage-rate increase: the union's statement says "That means the least a Ford or GM worker can receive by June 1, 1957 is 18 cents in hourly increases."

"The New Pattern" contains other items not discussed in the present article, such as full union shop in General Motors, "inequity adjustments," added pay with reference to vacations and holidays, and certain increases in employer-paid group insurance with reference to sickness and accidents as well as death.

Let us proceed somewhat further now with the more novel item in the package—supplementary unemployment compensation.

First, what are the benefits and costs contemplated in this feature? As the UAW–CIO announcement stated, "In many ways the drive for guaranteed work or wages parallels the push for pensions"—the latter said to have begun in 1949 and by now to provide many more dollars of retirement pay. Some of the total mark-up in pension dollars per pensioner has come from company concessions since 1949; and union spokesmen hold also that employers' resistance to liberalization of government social security payments has been weakened by union "push for pensions." In somewhat analogous fashion the 1955 agreements for supplementary unemployment compensation are expected by unions to cause employers to use political influence toward liberalizing state unemployment insurance.

From other sides come arguments that such union drives are threatening to weaken both will to work and will to invest and manage. This line of attack, however, is much more plausible with reference to the union asking price of 100 per cent guarantee of wages—or even with reference to a close approach to such guarantee for only six months in a year—than to the 1955 deals which provide, as total unemployment compensation for qualified workers, a *ceiling* of 60 to 65 per cent of their normal wages for six months after a one-week waiting period. In brief, the laid-off employee with adequate "credit units" based upon his length of service with the employer or employers to whom his union's agreement applies and upon the state of the trust fund applying to him, after June 1, 1956 may draw on the said fund to bring his total unemployment compensation up to 65 per cent of his usual pay over the first four weeks of his lay-off (after the unpaid waiting period); and thereafter to 60 per cent for not over 22 additional weeks. The union says that 26 weeks is well over the length of all but the most drastic lay-offs.

The build-up of these new trust funds proceeds through all or most of the year preceding inauguration of benefits, by the employer's contribution of five cents per man-hour worked. (In addition to the tax paid by said employer into the state's fund.) Thus, if number of man-hours worked declines (whether by reason of less people on the payroll or of less hours per man), the employer's total contributions decline. And the trust fund might be "half full" or even less when some claims for supplementary compensation are submitted. Here we glimpse one of the limitations of liability which the company assumes. So long as the current agreements stand, the companies covered are required by said agreements to

pay into their funds not more than five cents per wage-earner-hour worked. "Not more than five cents" because the employer's payments stop altogether when the trust fund for his workers reaches a level prescribed by his agreement with the union. According to the UAW, these ceilings are, for Ford, $55 million; for General Motors, $150 million. If valid claims for supplementary compensation are submitted (after June 1, 1956) at a time when the trust fund is "half full" or more, it seems that laid-off workers then will be able to draw benefits to bring them up to 65 per cent of normal pay for a total of eight weeks in a year—but no more than four weeks in one lay-off.

Still another qualification needed by the foregoing account is this: in order that supplementary payments to laid-off employees should begin at all, under the major agreements, it is required that two-thirds of all the company's covered employees shall then be living in states which permit state unemployment compensation to be drawn simultaneously with these new supplementary benefits. It seems likely this hurdle will be cleared.

If the latter condition is met, new spotlights will be thrown upon variations among the states as to their rates of unemployment compensation—including variations as to how number of dependents affects such compensation. The new Michigan maximum, for instance, of $54 a week in some sense is at least twice the national average of maxima; but it should be borne in mind that this Michigan ceiling applies only to earners of $106 a week in wages *and with five dependents*. Probably not over 10 per cent of recipients can fulfill both qualifications. The supplementary unemployment compensation provided by the Ford and General Motors agreements, by the way, do not contain any further qualification as to the worker's dependents; thus the laid-off worker without dependents tends to get more from the trust fund than his fellow-worker in the same wage bracket who does have dependents. The latter person can draw a higher rate of compensation from the state.

These and other defects in the state unemployment compensation systems are responsible, in good measure, for the movement herein discussed toward supplementary compensation through union-management bargaining. These systems, it now appears, were inadequate at the outset; and the legislative and administrative machinery for "escalating" their payments with rising prices and wages are at best cumbrous and slow. Union representatives believe that the new agreements for supplementary benefits will cause employers to use influence toward improving state systems.

The foregoing remarks have partially opened up the topic of prospective differential effects of the new contracts on groups of workers. The new deal moves somewhat further away from the war-time "across-the-board" wage changes of equal cents per hour for all jobs. The skilled worker's relative position is somewhat bettered, in part by the new version of "improvement factor" and in part by a higher ceiling of unemployment compensation as per cent of his normal wage. The post-agreement "wildcat" strikes of workers claiming to be highly skilled seem to have been largely classification grievances familiar in day-to-day union-management bargaining and arbitration. The threat of a skilled group to "bolt" and form a union of their own, which makes headlines at the moment of this writing, may however prove more serious.

The advantage of the worker, of any degree of skill, having long seniority during the larger lay-offs (over employees of shorter seniority) seems only slightly reduced by the new supplementary unemployment benefit. There will remain a substantial difference between 60 or 65 per cent of usual pay, for not over 26 weeks after the waiting period in a work-year, and the wages which continue to be drawn by the long-service employees who are not laid off.

And what of differential abilities to pay, among companies? Some of the more familiar arguments are superficial and can hardly be expected by the negotiators to be controlling.

From the labor side we hear that, since the financially-weaker companies have poorer records as to steadiness of employment, their employees need "guaranteed wages" even more than others; also that firms really unable to pay fair wages (plus other more or less standardized expenses) must fold up—they cannot expect to be subsidized by their workers. From management circles we hear more of alleged higher labor costs which unions have pried out of some or many weaker firms. There is some force in each of these contentions; but in general the winds of labor costs and hourly incomes tend more strongly to blow with equal force among competing firms than to be tempered much to shorn lambs on either the labor or employer sides.

How far and fast is this movement likely to spread? Over the next year or more, it seems the UAW–CIO and the very numerous firms —including, e.g., some in farm equipment— with which it makes new contracts, will be the chief proving-ground of the plan. It must not be supposed that the package necessarily cannot be accepted by a firm incapable of building a $100 million trust fund: e.g., already a Detroit association of tool and die firms has settled on the basis of a joint fund. Other things equal, smaller employment rolls would require smaller funds. Some other unions have already made bargains similar to those of the UAW: for instance the IUE–CIO (electrical workers) signed up immediately for the General Motors plants in which it is bargaining agent. Unions other than the UAW, however, appear generally to be watchfully waiting; and to be showing more interest in the 5-cents-an-hour contributions to a trust fund for supplementary unemployment compensation than in some other features of the UAW's deal. Understandably they all would like to get more money into their pay rates immediately; moreover some are dealing with sick industries like textiles and coal mining, by widely varying methods.

Many employers hear with apprehension assertions that labor expects to move rapidly on toward a 100 per cent GAW. The more general and influential view at present, however, would seem to be that whatever a total package in actual settlements adds to previous labor costs is the key to its effects. The effect, moreover, on prices and employment of an appreciable change in labor costs cannot be forecast by reference only to a small fraction of the economy; account must also be taken of the chance that such a change will spread widely, as well as of the numerous other omens as to future behavior of employment and of real incomes. In somewhat similar fashion may be approached the problem of pressure exerted by increased labor costs toward mechanization and automation. In this matter, though, a change of labor cost in a single firm may induce a change in that firm's equipment and methods.

Among arguments purporting to make the UAW total package favorable to our whole economy are these: the immediate effect is a rise of the employer's labor costs, seemingly about 10 per cent. But the impact should not be inflationary (it is said) because: (1) profits can stand trimming; (2) increased labor expense in part is offset by decreased corporation income tax; (3) previous escalators in union-management contracts have not produced inflation; (4) employers need the spur of added contributions to unemployment compensation to cause them to get the state laws overhauled and to stabilize their own employment; (5) more adequate total unemployment compensation gives increased support to the purchasing power of wage earners; and (6) some contra-cyclical tendency, too, is discernible in impounding five cents per hour of the added labor cost into trust funds, making them not immediately available for wage-earner spending—yet available for spending if and when employment markedly falls.

Several of these propositions are obviously more plausible with reference to profitable concerns than to unprofitable concerns. The idea of gearing a firm's wages to its profits runs counter to the more prevalent principle that labor costs are and should be increasing-

ly standardized; also to the still-strong union aversion to profit sharing schemes. With some exceptions, the automotive industry has been unusually prosperous for some years, and its product prices are not accurately reflected by the Consumer Price Index.

Yet a good deal of sound economic analysis has been embodied in the automotive contracts. In particular an annual improvement factor is based on the historical fact that wages have tended to rise more than prices; and there has been increasing recognition of the favorable role which unemployment compensation can play, in mitigating rises and dips in business activity. Naturally principles in the new package, like other principles, could be carried to excessive lengths; and where is the point where any of them becomes excessive will become clearer in the light of further experience.

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